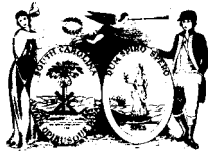


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
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July 10, 2002

Ms. Sybil B. Neaves, Director of Reimbursement
Integrated Health Services, Inc.
The Highlands
910 Ridgebrook Road
Sparks, Maryland 21152

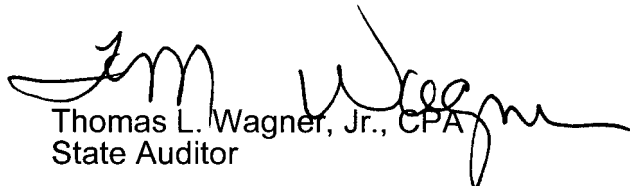
Re: AC# 3-WOF-J9 – Woodruff Health Care

Dear Ms. Neaves:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1998 through September 30, 1999. That report was used to set the rate covering the contract period beginning October 1, 2000.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph P. Hayes

**WOODRUFF HEALTH CARE
WOODRUFF, SOUTH CAROLINA**

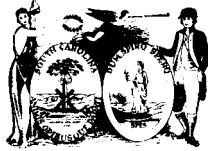
**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2000
AC# 3-WOF-J9**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIOD BEGINNING OCTOBER 1, 2000	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 2000 THROUGH SEPTEMBER 30, 2001	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 1999	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	9

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

December 7, 2001

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Woodruff Health Care, for the contract period beginning October 1, 2000, and for the twelve month cost report period ended September 30, 1999, as set forth in the accompanying schedules. The management of Woodruff Health Care is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

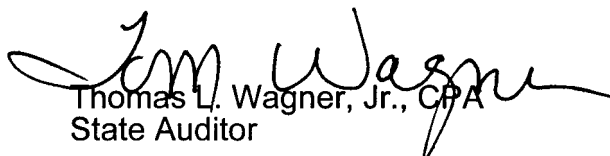
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Woodruff Health Care, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Woodruff Health Care dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
December 7, 2001

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.


Thomas L. Wagner, Jr., CPA
State Auditor

WOODRUFF HEALTH CARE
Computation of Rate Change
For the Contract Period
Beginning October 1, 2000
AC# 3-WOF-J9

	10/01/00- <u>09/30/01</u>
Interim reimbursement rate (1)	\$89.65
Adjusted reimbursement rate	<u>88.39</u>
Decrease in reimbursement rate	\$ <u>1.26</u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 2000

WOODRUFF HEALTH CARE

Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2000 Through September 30, 2001
AC# 3-WOF-J9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$41.27	\$46.45	
Dietary		9.08	10.56	
Laundry/Housekeeping/Maint.		<u>9.10</u>	<u>9.12</u>	
Subtotal	<u>\$4.63</u>	59.45	66.13	\$59.45
Administration & Med. Rec.	<u>\$ -</u>	<u>12.60</u>	<u>11.20</u>	<u>11.20</u>
Subtotal		72.05	<u>\$77.33</u>	70.65
<u>Costs Not Subject to Standards:</u>				
Utilities		1.78		1.78
Special Services		.07		.07
Medical Supplies & Oxygen		2.64		2.64
Taxes and Insurance		1.21		1.21
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$77.75</u>		76.35
Inflation Factor (3.20%)				2.44
Cost of Capital				5.86
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				4.63
Effect of \$1.75 Cap on Cost/Profit Incentives				(2.88)
Nurse Aide Staffing Add-On 10/01/00				.81
Nurse Aide Staffing Add-on 10/01/99				<u>1.18</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$88.39</u>

WOODRUFF HEALTH CARE
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1999
AC# 3-WOF-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,331,094	\$ 1,823 (4)	\$15,900 (3) 954 (3)	\$1,316,063
Dietary	291,763	-	2,282 (3)	289,481
Laundry	111,363	-	3,566 (6)	107,797
Housekeeping	110,128	-	-	110,128
Maintenance	72,765	-	631 (3)	72,134
Administration & Medical Records	332,577	68,761 (4) 2,002 (5)	1,715 (3)	401,625
Utilities	56,912	-	-	56,912
Special Services	3,569	2,957 (4)	25 (3) 3,105 (7) 1,128 (8)	2,268
Medical Supplies & Oxygen	84,149	-	-	84,149
Taxes and Insurance	51,847	-	13,267 (2)	38,580
Legal Fees	-	-	-	-
Cost of Capital	214,700	1,979 (1) 1,722 (6)	30,210 (4) 975 (4) 212 (5) 208 (9)	186,796
Subtotal	2,660,867	79,244	74,178	2,665,933

WOODRUFF HEALTH CARE
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1999
AC# 3-WOF-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Ancillary	41,117	-	-	41,117
Non-Allowable	163,140	13,267 (2) 21,507 (3) 1,844 (6) 3,105 (7) 1,128 (8) 208 (9)	1,979 (1) 42,356 (4) 1,790 (5)	158,074
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$2,865,124</u>	<u>\$120,303</u>	<u>\$120,303</u>	<u>\$2,865,124</u>
Total Patient Days	<u>31,886</u>	<u>-</u>	<u>-</u>	<u>31,886</u>
Total Beds	<u>88</u>			

WOODRUFF HEALTH CARE
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-WOF-J9

ADJUSTMENT NUMBER	ACCOUNT TITLE	DEBIT	CREDIT
1	Fixed Assets	\$38,154	
	Cost of Capital	1,979	
	Accumulated Depreciation		\$28,707
	Nonallowable		1,979
	Other Equity		9,447
	To adjust fixed assets and related depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
2	Nonallowable	13,267	
	Taxes & Insurance		13,267
	To adjust property tax expense		
	HIM-15-1, Sections 2301.1 and 2304		
3	Nonallowable	21,507	
	Nursing		15,900
	Restorative		954
	Dietary		2,282
	Maintenance		631
	Administration		1,715
	Therapy		25
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
4	Nursing	1,823	
	Administration	68,761	
	Therapy	2,957	
	Cost of Capital - Depreciation Expense		30,210
	Cost of Capital - Interest Revenue		975
	Nonallowable		42,356
	To adjust IHS home office cost allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
5	Administration	2,002	
	Cost of Capital		212
	Nonallowable		1,790
	To adjust home office CAO allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		

WOODRUFF HEALTH CARE
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-WOF-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Cost of Capital Nonallowable Laundry	1,722 1,844	3,566
	To adjust home office laundry cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Nonallowable Therapy	3,105	3,105
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
8	Nonallowable Therapy	1,128	1,128
	To adjust co-insurance for Medicare Part B Services State Plan, Attachment 4.19D		
9	Nonallowable Cost of Capital	208	208
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$158,457</u>	<u>\$158,457</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

WOODRUFF HEALTH CARE
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1999
AC# 3-WOF-J9

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.3156</u>
Deemed Asset Value (Per Bed)	36,165
Number of Beds	<u>88</u>
Deemed Asset Value	3,182,520
Improvements Since 1981	95,466
Accumulated Depreciation at 09/30/99	<u>(906,291)</u>
Deemed Depreciated Value	2,371,695
Market Rate of Return	<u>.060</u>
Total Annual Return	142,302
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	142,302
Depreciation Expense	45,469
Amortization Expense	-
Capital Related Income Offsets	(975)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	186,796
Total Patient Days (Actual Days)	<u>31,886</u>
Cost of Capital Per Diem	\$ <u><u>5.86</u></u>

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